



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

March 23, 2009

Terry Hansen
Manager, Public Partnerships
International Business Machines Corporation
1301 K Street, NW, Suite 1200-W
Washington, DC 20005-3317

Dear Mr. Hansen:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0153 for the period September 6, 2004, through September 5, 2006.

The report indicates International Business Machines Corporation (IBM) complied with the terms of the Agreement and the California Unemployment Insurance Code.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

cc Trinh Dang, Project Manager – Grants, Public Partnerships

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INTERNATIONAL BUSINESS MACHINES CORPORATION (IBM)

Agreement No. ET05-0153

Final Audit Report

For The Period

September 6, 2004, through September 5, 2006

Report Published March 23, 2009

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AUDITOR'S REPORT

Summary

We performed an audit of International Business Machines, Agreement No. ET05-0153, for the period September 6, 2004 through September 5, 2006. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period October 1, 2007 through October 9, 2007.

The Employment Training Panel (ETP) paid the Contractor a total of \$637,754. Our audit supported that the entire \$637,754 is allowable.

FINDINGS AND RECOMMENDATIONS

Background

Founded in 1952, International Business Machines Corporation (IBM) is an Information Technology provider of hardware, software, and IT services for the business industry and the personal user. IBM is headquartered in New York, with a workforce of over 318,000 employees worldwide, 9,689 of whom work in California.

This was the second Agreement between IBM and ETP. The training project sought to address IBM's need to train its frontline workers as the Company continues its move towards new e-business initiatives. IBM's staff is required to work in cross-functional teams that meet face-to-face with the customer to identify specific needs, identify areas where the application can be redesigned, develop the revised application, and assist with the implementation, servicing, and maintenance of the software application. Therefore, the Agreement provided for computer and continuous improvement skills to assist IBM's research and development staff and information technology professionals meet the Company's e-business initiatives.

This Agreement allowed IBM to receive a maximum reimbursement of \$1,108,640 for retraining 1,312 employees. During the Agreement term, the Contractor placed 657 trainees and was reimbursed \$637,754 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of International Business Machines Corporation. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that International Business Machines Corporation complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were

FINDINGS AND RECOMMENDATIONS

trained and earned the minimum wage required at the end of the 90-day retention period.

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion Our audit supported International Business Machines Corporation complied with the terms of the Agreement and the California Unemployment Insurance Code. As a result, the entire reimbursed amount of \$637,754 is allowable.

Records Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: October 9, 2007

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0153 and should not be used for any other purpose.